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CHINA AS AN ECONOMIC AND MILITARY SUPERPOWER:
A DANGEROUS COMBINATION?

by

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ABSTRACT

TITLE: China: Its Economy and Its Military -- A Dangerous Combination?

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China's economic and military power make it one of the most important nations to the United States as well as other Pacific Rim nations in 1995. It has one of the fastest growing economies in the world as well as one of the largest military machines. Together, these two factors have the ability to disrupt the current balance of power in the Southeast Asia region as well as pose a threat to the United States militarily. China's transition to a market oriented economy has given it greater leverage and greater respect globally, yet its antiquated military is struggling to quickly modernize by purchasing updated technology from Russia. This paper will look at China's economy and military, how they interact, why China might be a threat and then try to determine the risk she poses. Additionally, I'll draw some conclusions about where China is heading.

BIBLIOGRAPHICAL SKETCH

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INTRODUCTION

China is one of the most important nations on earth right now -- the growth of its economy has captured the attention of not only the United States, but China's neighbors in the Pacific theater as well. Of course, China's mighty military machine is an integral part of its economy and the two, coupled together have the potential to disrupt a delicate balance of power in that region. To analyze the impact of these two critical instruments of Chinese national security and Chinese power, we need to look at each independently. China's economic power can be attributed to its recent transition to a market economy; however, will that market economy survive the death of Deng Xiaoping? The privatization of state owned enterprises and the transfer of Hong Kong to China in 1997 are also issues which may contribute to China's economic success and are part of the overall equation. In addition, we need to look at China's military modernization -- how has it modernized and why? What effect will the People's Liberation Army (PLA) have on China's future? More importantly, how does the economy affect the military modernization? The answers to these questions may shed some light on a more specific question: What kind of a threat do China's economy and military pose to us and to China's neighbors in the short term future?

CHINA'S ECONOMY: WHERE IS SHE HEADING?

“Where China goes, so too, goes the future of Asia. None of us can ignore a country with over one-fifth of the world's population, intercontinental nuclear weapons, veto power on the U.N. Security Council and one of the most dynamic economies in the world.”¹ China is a dragon awakening from sleep and much has changed in China in the last decade; notably, it has transitioned from a Marxist style economy to a market oriented economy with results demanding worldwide attention. Although it may not be considered a bona-fide world power this year, its progress economically is charting a course that in another decade or two may put it on the economic map as a superpower to contend with. In addition, this economic power comes at a price.

To fully appreciate China's new economic status and to understand where she is headed we must take a look at a few different aspects of her economy. First, we'll see how China has been faring as it transitions to a socialist market economy. Along with its recent gains, China has had to endure some pain: problems with inflation, fiscal deficits and low productivity of state owned enterprises while accelerating reform and an open door policy. Next, the position of Deng Xiaoping's leadership is important. Will China's economy survive him? Has a strong economic foundation been established? Third, I'll examine the reform of state owned enterprises and how it affects China's financial system. Finally, I'll assess the impact of the return of Hong Kong to the Chinese in 1997 and look at its economic implications. After examining these aspects of China's current economy, I'll draw some conclusions for her short term destiny.

TRANSITION TO A MARKET ECONOMY

The transition of China's economy from a Marxist oriented system to a more socialist market dominated system can be traced initially to the 1950s with a break for the Cultural Revolution and then a resumption of this economic thought again in the early 1960s and mid 1970s. Contact with the outside world, through education abroad or attendance at Western oriented universities in China was a great influence in the thinking of China's economic experts and was instrumental in catalyzing reform.² U.S.- China trade resumed in 1972 but remained minimal until China's open door policy began in 1979. Since then, the United States has accorded China Most Favored Nation Status each year and established a Joint Commission on Commerce and Trade to increase business enterprise in China.³

In an effort to achieve military and political recognition world-wide, China began to make changes economically. Economic reform happened gradually and quietly in China, in part because it was a closed society and little access to its progress was available to the outside world. China instituted economic reform and an open door policy in the late 1970s and as a result, its economic growth has been impressive: China's economy is generally regarded as the fastest growing economy in the world at the present. Average annual growth has hovered around 12% for the last few years, foreign investment is at about \$11 billion annually and exports continue to rise every year.⁴ If Taiwan and Hong Kong are also included as "Chinese communities," China is one of the most promising areas for investment and trade in the world. Additionally, China is now the largest market in the world for almost every conceivable consumer good and could overtake the United States as the world's largest economy.⁵

China's economic advances are tied inextricably to other areas of its security; namely military and political security. In fact, to the Chinese, economic security is as important as military security.⁶ Right now, China is preoccupied with domestic economic issues and establishing its political place in the world in the short term. In the wake of the Tianamen Square massacre, it is also attempting to improve its image as a strategic power.⁷ The United States and much of the world, took a very negative view of the events of Tianamen Square. Questions about Chinese repression, human rights issues and China's progress were direct consequences of that event and overshadowed China's economic progress and reforms.⁸ China has had to work to overcome the negative press it received as well as to restore full diplomatic relations, especially with the United States. After several years, it looks like China is again establishing its place in the world, economically, politically and militarily. The economic sanctions China experienced as a result of its Tianamen Square actions were obviously tied to its military actions in the massacre. As Winston Lord points out, "All of the Asian models of economic success toward which China looks - many of them Chinese societies - have shown that political relaxation, tolerance of opposition and other democratic elements are inescapably linked with economic development."⁹ Thus, economic reform will ultimately enhance military security and the Chinese hope too, that economic advancement will result in political respect.

At the same time, China's leaders are clinging less to their outdated authoritarian system. Economic reform produces and requires political reform and in today's world, nations cannot prosper without opening up their societies. "Technology and information, the forces of modernization, and global democratic trends have been eroding communism and totalitarianism across the globe..." for years.¹⁰ In fact, the Chinese have seen this and

recently signed a deal with Intel to install 80 million phone lines in the next six years.

They know they need technology to be competitive in the world economic market.¹¹

Communism fell in the USSR and Eastern Europe, and now it appears that China, as a socialist market economy, is following suit.

Of course, the price of economic reform has come at a cost to the Chinese. Inflation last year was at 17.9% and the poorer inland provinces were hit with especially high prices. The cost of living in Guangxi for example, rose more than 27% over the previous year.¹² Deng Xiaoping is apprehensive about using the excuse of an overheated economy to turn back the clock of reform. He believes the best way to combat inflation and other economic problems is to grow faster and bigger.¹³ This is precisely what China has done in the last decade.

With the economic reforms implemented by Deng Xiaoping and his protégés, China shows signs that it is beginning to realize its economic potential. As the world's third largest economy, the biggest worry is how to keep the economy from growing too rapidly.¹⁴ However, is this shift to a market economy a passing fad or will it survive the death of Deng Xiaoping?

DENG XIAOPING

Deng Xiaoping is the man most responsible for accelerating China's economic reform. His importance in China's recent history and future is remarkable and he has been instrumental in its transition to a market economy. Deng's impact on China has been great; from the \$11 billion in annual foreign investment, the annual growth rate of about 12%, and moving China out of the Cultural Revolution and away from the antiquated

Marxist economy. China is now becoming economically competitive with other Asian nations. As a result, this has affected the way the United States looks at China as well as the way in which China regards the rest of the world. The critical question is whether Deng Xiaoping has built a solid foundation for the Chinese economy. Will this foundation survive his death and be carried on by his successor? How has this affected international relations?

Top Chinese officials are very aware that they must maintain good ties with the United States and other Western countries if they are to rapidly develop the Chinese economy, modernize their military and realize China's big power ambitions.¹⁵ Additionally, good relations with neighbors will minimize tensions and reduce the probability of armed conflict. China's successful economic boom is very influential in the region and China can reap the benefits of economic growth by expanding their economic frontier to those countries it has differences with and in the long run avoid military conflict.¹⁶ Economic success and military success are inter-related, but it is more efficient to realize greater economic growth without the added burden of a military conflict.

From the United States' point of view, "China's leaders often seem like thugs in the way that they lock up dissidents, suppress Tibet, bully Hong Kong and peddle missiles."¹⁷ The United States also knows in the wake of Tianamen that today's dissidents may be tomorrow's leaders in China; these men and women are behind economic reform and Westernization and therefore it is smart for the United States to bond with them.¹⁸ The United States therefore, continues to watch China's economy carefully, especially as it pertains to military readiness and political stability.

From Deng Xiaoping's perspective, China is merely preserving stability and territorial integrity, as well as promoting its own military and economic self interests. From Deng's point of view the United States is the thug; as a result of the Tianamen Square incident, he sees the United States as betraying a bilateral relationship by abandoning a nonjudgemental friendship and supporting counterrevolutionaries.¹⁹ Deng cites other examples in which he believes the United States is working against the Chinese by shoring up the positions of China's neighbors, and whether that aid is political or military, there are always economic innuendoes attached.

Ultimately, however, the success of China's economic strategy rests on the preservation and improvement of relations with the United States. China has thus adopted a conciliatory and flexible policy towards Washington and has signaled a readiness to cooperate with the Clinton administration.²⁰ The Chinese will continue to adjust to their new economic freedom and their new status in the Asian region and indications now point to the making of a potential superpower.

Deng Xiaoping maintains that the transition to a market based economy is a long term ideological and diplomatic strategy and does not pose any immediate danger to China. Deng's supporters contend that as long as China adheres to the path of economic reform and continues to improve the living standards of the Chinese people, there is no need to worry; they see the United States as playing a positive role in China's economic transition.²¹

As Deng Xiaoping and the current octogenarian leaders pass from the scene, China is sure to experience some difficulty economically and politically. The leadership's ability to experience a successful transition is of immense importance to China's internal stability

and the stability of its immediate neighbors, as well as for the continued economic progress and for the direction of its future foreign policy. China's modernization strategy is based on a peaceful international environment and continuing strong commercial ties with key trading partners.²² Therefore, it is in China's best interests to continue to enhance relations with the United States as well as key nations in the Pacific so that when the day does come when Deng passes away, the economic and political transition will be less painful globally.

Although some might argue that key economic institutions are still working their way into China's economy, generally economic reform has a solid foundation in China. It was instituted gradually as was seen in the liberalization of price controls. Additionally, the agricultural block reformed before the industrial block which safely allowed farmers to improve their productivity with the collapse of the commune system.²³ In the long term, we can count on seeing effective central banks and convertible currency as China matures as an economic entity and becomes more competitive in the world market place. Thus, when Deng Xiaoping passes away, the foundation of a potentially strong economic base has been cast and it will take almost another revolution to return to the communes and Marxist philosophy that the Chinese have struggled so long to overcome. We must keep in mind though that China is still a Communist nation and has never enjoyed a smooth transition of power.²⁴

STATE OWNED ENTERPRISES AND INDUSTRIALIZATION

State owned enterprises still exist in China today. They are responsible for some of the problems associated with the economy and exacerbate other problems. As long as these

businesses continue to employ such a high percentage of Chinese workers, the economy will continue to see low productivity because of the lack of financial rewards. Other problems in Chinese society such as the high population growth, agricultural versus industrial reform and income disparities between the coastal and inland regions continue to inhibit economic development.

Despite the apparent success of China's economy in the last 20 years, problems are inherent in its transition to a market economy. Chief among these problems is the continued state ownership of much of China's economy. These state owned enterprises employ about one third of the urban Chinese workforce and almost half of all state run businesses are unprofitable. Although the state owned businesses operate in the red, the Chinese government is reluctant to eliminate them fearing massive unemployment and consequent social unrest.²⁵ As a recent Communist party plenum noted, China must instill a greater sense of responsibility among factory workers in the state run enterprises. Combined with a change in attitude, privatization of state owned businesses will cut the bureaucracy, enhance efficiency, and increase profits. Realistically though, this type of change will take time.

China's chronically high population growth is another major problem which spawns further problems. The population explosion in turn creates unemployment and diverts capital investment from industry and into less productive sectors such as housing.²⁶ Inflation too, is a result of China's rapid economic growth. It has distorted prices, increased corruption and resulted in insufficient government revenues.²⁷ These kinds of problems can be solved with the dissolution of the state owned enterprise system and a

continued move to a competitive market economy. However, as the Chinese have found, they must temper their growth and consider all the factors bearing on their economy.

The current relationship between the state and society in China cannot be regarded as stable. Economic development has been responsible for the spread of dissatisfaction from the cities into the countryside due to the disparity in wages and standards of living.

Through most of the 1980s, the rural areas provided the Communist Party with a secure base of support, since early success in agricultural reform caused peasant incomes to rise more rapidly than those of urban workers. Now, however, agricultural output is growing more slowly than industrial production and prices for industrial goods are rising faster than for agricultural products.²⁸ Thus, the cost of living and inflation in the rural inland provinces far exceed those of the industrialized coastal cities. Additionally, there is speculation that the Chinese use the “forced labor” of political prisoners and then export those goods.²⁹ Although China is moving toward a market economy, it apparently has some adjustments to make in the transition. Even if the price of labor is increasing because of their economic shift, capitalizing the use of forced labor is wrong and the United States will not support it.

China’s low wage levels from state owned enterprises and more importantly, in the private sector, puts it in a position to outcompete much of Southeast Asia with low cost products in the United States market. China has also attracted significant investment capital in competition with Southeast Asian nations.³⁰ The improving investment climate in China is an asset that favors economic development.

The steady increase in China’s industrialization has placed a huge strain on energy supplies needed for its expansion into areas other than agriculture. For example, China is

running out of oil with older oil fields drying up. An expensive pipeline might solve the problem but that requires capital and high level interest. Energy now comes from coal, a major pollutant, but China is not as yet ready to sacrifice economic growth for the environment.³¹ As it becomes a more mature economy, and perhaps more Westernized, hopefully China will place more emphasis on the environment and be less concerned with state production goals.

The key to China's continued and future economic success is the reform of state owned enterprises and the financial system. State owned enterprises need to transition to competitive markets to spur the economy in the future. Additionally, China needs to continue the modernization process from an agricultural society to a more industrialized state, thus stimulating an environment for foreign investment. State owned enterprises create social friction between the haves and have nots and hinder China's economic progress.

IMPACT OF HONG KONG

Along with Taiwan, Hong Kong is considered the “Greater China.” Scheduled for return to China in 1997, its strategic location and highly developed infrastructure have been key factors in the success of its economy. However, once Hong Kong reverts from colonial rule to Chinese subjugation, will they continue to enjoy economic freedom and success? What are the long term implications to the Chinese and to Hong Kong in the immediate short term future?

While the overriding economic imperative guiding China’s foreign policy at this time dictates moderate, cooperative behavior on China’s part, political concerns could intervene. China’s struggle with Britain over the future of Hong Kong’s domestic politics could not only disrupt the transition of control of the colony but also could create new anxieties about Chinese intentions throughout Asia and strengthen support for renewed sanctions against China by Western countries on human rights grounds.³²

Hong Kong plays a major role in the sale of Chinese products to the United States, which accounts for the importance of Chinese imports here. However, the United States exports little to Hong Kong and exports some critical raw materials directly to China.

The Chinese have invested heavily in Hong Kong. As of last year, it is believed the Chinese have at least \$10 billion invested there, making it China’s most significant foreign direct investment location.³³ Additionally, for the first time, in 1993 Hong Kong sold more goods to China than to the United States.³⁴ Thus, China has a keen interest in Hong Kong and in keeping its economy strong.

SO WHERE IS THE CHINESE ECONOMY GOING?

In the long run, the Chinese expect economic development to provide the key to greatly enhancing the country's comprehensive national power.³⁵ As the fastest growing economy in the world, with what may be the fastest growing military budget, China may displace the United States in the first half of the next century as the number one economy in the world.³⁶ Although the pace is becoming overheated, the economy will have to cool down for the next year or more while the economy becomes more efficient and sophisticated.³⁷ China cannot afford to endure runaway inflation, price and wage disparities and the social problems they create. Perhaps the best approach to dealing with China's continuing progress in their shift to a market economy is to continue to foster cooperation. Economic liberalization will create situations that stir political instability and may challenge political authorities.³⁸

The Chinese foresee increased political and economic tensions among the major industrialized countries in the post Cold War era that could set back global economic development and in turn threaten the success of China's modern economic program.³⁹ The efforts of the Western powers, especially the United States, to impose market economic principles and political democracy worldwide are viewed in China as potentially destabilizing and as a threat to the survival of China's Communist regime.⁴⁰ In the foreseeable future, China is expected to lag behind its neighbors but is not expected to be a threat unless economic progress is reversed or the gap widens substantially.⁴¹ As Winston Lord mentioned at his Senate Confirmation hearings when he was nominated for the post of Assistant Secretary for East Asian and Pacific Affairs, "The Chinese hold the same aspirations as others around the globe. We will support those aspirations - without

arrogance - recognizing that the Chinese people will determine their own destiny but confident that we are aligning ourselves with the future.”⁴² The Chinese economy is not only linked to regional and world stability, but its relation to its military will determine whether or not the United States and China’s neighbors feel threatened. One of China’s long term goals is to continue to finance a modernizing military machine with a successful economy. In short, the Chinese military cannot buy updated weapon systems without sound financial backing and likewise, a poor Chinese economy cannot support a more modern military capable of threatening most of Southern Asia. Thus, China’s modern military force is tied very closely to the success of the Chinese economy.

CHINA’S MILITARY: A THREAT TO CONTEND WITH

China’s military is often regarded as a third world threat; incapable, obscure and technically outdated. The fact is though, that the Chinese People’s Liberation Army (PLA) is the world’s largest military machine, rapidly updating its technology and is a force to take seriously. Thus, it is important to carefully examine China’s armed forces in part because they are “the only nation in the world that targets the United States with nuclear weapons.”⁴³ Although China may not be a modern military superpower on our terms at the moment, it is imperative that we be aware of their potential, understand their motivation, and carefully monitor their future activities primarily because of their ability to disrupt the Asian regional balance of power.

To fully appreciate China’s military status and to understand where she is headed, we must take a look at a few different aspects of the PLA. First, we’ll see how China’s military has been modernizing in recent years. With its increased acquisition of aircraft

and naval vessels, it has expanded its reach and poses an immediate threat to its regional neighbors. Next, we'll ask why China is expanding and what political and international factors contribute to China's military growth. An examination of these motives should shed some light on China's motives for modernization and expansion. Finally, we'll examine the implications of China's emergence as an awakening power; is she someone we should consider a permanent strategic threat and when and where could conflict erupt? These questions and the following answers should give us an indication to a more general question: Where is China and its military headed?

HOW HAS CHINA'S MILITARY BEEN MODERNIZING?

China's quest for a more modern military is a relatively recent phenomenon. In fact, it began in the early 1980's; no coincidence that this was shortly after foreign relations improved in the late 1970's with Dr Henry Kissinger and President Nixon's efforts to open China to the world. One can only speculate that China saw our "space age" technology and realized that to become a serious superpower and join the United States and the former Soviet Union as world leaders, it had some quick catching up to do. Compounding this trend of thought in more recent years, the Chinese saw Desert Storm as a high tech war, fueling their insecurity and inferiority and thus further motivating their drive to upgrade the PRC military machine.⁴⁴

With the success in recent years of the Chinese economy, the fastest way for China to catch up as a military power, was to modernize its military forces through procurement actions and the acquisition of improved technology. PLA leaders have recognized that their industrial complex was antiquated and they are beginning to focus attention on

improving those areas that are adequate to enhance weapons improvements.⁴⁵ One avenue they have taken in the last few years has been to acquire technology and production rights for weapons systems rather than buying equipment off the shelf. This tactic is enabling China to modernize its defense industry from within and allowing it to develop its own technology in the future.⁴⁶

Most notably however, China has been working with Russia in several different areas to upgrade its weapons systems. The PRC has been buying attack helicopters, transport planes and fighters from Russia and is currently negotiating the purchase of more advanced MiGs.⁴⁷ Specifically, in 1992 they negotiated the acquisition of a squadron of Flanker fighters with a follow-up of 36 more later.⁴⁸ Plans for the near-term future include the possible co-production of an updated fighter aircraft with Russia, an increase in scientific exchanges and the resumption of sharing intelligence information.⁴⁹ In addition, probably the PRC's most critical purchase from Russia is the acquisition of inflight refueling capabilities which would extend the PRC's power projection capabilities in the Pacific.⁵⁰ If the newly acquired fighters are based in the southern region of the PRC, and have inflight refueling capability, they would certainly be capable of dominating the South China Sea area and posing a major threat to China's neighbors.⁵¹ Again, without a successful economy, China could not afford the luxury of updating its military and therefore flexing its military muscle. However, it has the funds and continues to pour money into its high priority military modernization program.

As the modernization program has progressed, China's military budget has expanded. The PRC's rapidly growing economy has allowed the economic boom to finance its military buildup.⁵² This, combined with Russia's low prices and cheap labor in China has

greatly expanded the PLA's purchasing power.⁵³ Although the official military budget is very vague, it could be guessed that China's total military spending may be among the highest in the world.⁵⁴ For example, China recently claimed its military budget was \$14 billion but further study reveals that when other costs such as research and development are included the budget for that year was closer to \$40 billion. Thus, during this particular year, China's military budget was the third largest in the world.⁵⁵ However, the recent increase in military spending may be insignificant when compared to China's decade of double digit inflation.⁵⁶ Chinese officials claim the sharp rise in the military budget is directed at improving living conditions for the troops as well as the modernization effort.⁵⁷ They contend too that their modernization actions are purely defensive and should not alarm their neighbors.⁵⁸ However, most of Southeast Asia is taking note of China's modernization efforts, the consequent closer ties with Russia and they do feel threatened.

Thus, as a direct result of its modernization efforts, China is now Russia's most important arms purchaser. This partnership benefits both nations; Russia is able to maintain its prestige and influence, keeping its arms industries afloat with new revenues while the PRC receives badly needed modern aircraft, technology, and the beginnings of a blue water navy. Linked to China's modernization, regional security concerns in the Pacific have been heightened, as China's power projection reaches nations within its scope.

Now that we've examined how China has been modernizing its force through budget increases and improved relations between the Russians, let's see why China's armed forces are modernizing.

WHY IS CHINA'S MILITARY FORCE EXPANDING?

China's military is undergoing a metamorphosis according to Chong-Pin Lin, author of "The Stealthy Advance of China's Peoples Liberation Army." He contends that China is on the road to becoming a superpower. One key reason China is improving its military technology and modernizing is because of its political orientation. The tradition of PLA involvement in civilian society goes back to the early 1900's when Mao stressed the military's extramilitary role to ensure its self sufficiency. Since then, the PLA has been involved in the press, they have influenced political events such as the 1976 Gang of Four arrests and been involved in trade unions and businesses emerging in local business commerce organizations.⁵⁹

In fact, the PLA is very entrenched in business operations. They own and operate more than 10,000 enterprises covering a wide spectrum of businesses ranging from mining and food production operations to factories producing weapon systems. The PLA also runs collective businesses run by military units as well as joint ventures with foreign and domestic partners. They rely on these businesses for income, especially the arms sales as corporations.⁶⁰ Thus, China's military buildup and expansion has benefited both their military and civilian economies. However, other factors are also responsible for China's recent military growth.

Political and international factors cannot be overlooked as obvious reasons for the PLA's recent expansion. One of China's biggest fears is the United States. They see us as leading a uni-polar world in the wake of the collapse of the Cold War.⁶¹ Additionally, they see the end of the Cold War as ending their significance in the "great strategic triangle" and ushering in much uncertainty in international relations.⁶² Their paranoia is

compounded by the US sale of fighter planes to Taiwan, which the Chinese perceive as a direct threat to their sovereignty.⁶³ As a result of these feelings of inadequacy, China has felt the need to modernize the PLA with the purpose of becoming Asia's premier military power.⁶⁴ Yet, China's efforts to become a world class power as well as a regional power come with certain implications.

THE FUTURE IMPLICATIONS OF THE PLA AS IT EXPANDS

The recent military buildup in China greatly worries China's neighbors and frustrates the United States' goals of regional security in the Pacific. It is clear that the perception of escalation as a result of the PLA's modernization can result in an East Asian arms buildup. On the bright side however, most Asian nations are glad to see the reduction in tension between Russia and China, but Taiwan and Japan are especially concerned with the newfound military ties between the two nations.⁶⁵

Analysts conceded that if present trends continue, the PLA will be a much more formidable force by the year 2000.⁶⁶ If they are right, the United States should then reaffirm commitment to the security of regional friends and allies in the Pacific and adopt a game plan of cooperative engagement.⁶⁷ Encouraging collective security in the Asia-Pacific region will provide a framework for peace and stability. This is especially critical for the goodwill between China and its neighbors under trying circumstances.

SO WHERE IS CHINA'S MILITARY HEADING?

There is no doubt that the Chinese military is modernizing and buying newer weapons systems from the Russians but for the near term is not a major threat to the United States.

However, in evaluating the entire equation, the United States should not overreact to Sino-Soviet ties nor behave too cautiously. We recognize the concerns of China's regional neighbors about China's increased power projection. Perhaps some policy adjustments towards Russia and China may be required to influence the direction of their ties but for now we should watch the situation closely, especially regarding nuclear technology and technology transfer.⁶⁸ We need to keep in mind that we need to maintain access with Chinese military officials so that we will have the opportunity to influence their outlook in the post-Deng period when it arrives.⁶⁹

The bottom line is that China continues to increase the pace and scope of its military modernization program but we must seek sufficient assurances in China's strategic planning and procurement processes to convince ourselves and China's neighbors that China's modernization program is limited to legitimate defensive needs and is peaceful in intent.⁷⁰

CONCLUSIONS

There is no question that China's economy will continue to grow at break-neck speed in the next few years, making it a much more powerful global power than we have seen China play in the last century. As a result of China's economic success, we can expect to see a continuation and perhaps even an acceleration of its military modernization program. The United States must take a more active role in China's economic development so that we can establish the necessary political and military ties favorable to our national interests while assisting the Chinese with industrialization and the modernization of its military. We must also closely watch the modernization of China's military, especially their ties to Russia while balancing our relations with our long term allies in the region. Although China may not have the current technology to threaten our security, their economic independence could allow them to advance their military might in the near term and be a real threat to us and possibly disrupt the delicate balance of power in Southeast Asia. Additionally, economic and military strength might encourage the Chinese to foster stronger alliances with neighbors such as the North Koreans and Russians which would certainly test our alliances in the Pacific as well as create tension in that region.

China's economy and military are a dangerous combination. Should China's economic growth slow down, we should continue to expect the military to continue its modernization efforts but probably at a proportionally slower rate. China's realization that it is years behind other global powers, its desire to be considered a global power, and the internal pressure from the military to improve living conditions and become more technologically advanced will not allow it to eliminate its modernization program.

Additionally, China wants to dominate the Southeast Asia region and can only be a contender if it has the military, and therefore the economic, resources to compete.

The Pacific Rim nations must also watch China as its economy strengthens and as it acquires advanced weapons and aircraft. The future is sure to bring conflict to the region because the differences between historically alienated states will be enhanced. For example, China and Taiwan will probably not resolve their differences and China has the potential to overpower a much smaller nation. Although right now Taiwan has the ability to outperform China because of its fighters, it may not be able to compete in a few years if China's aggressive acquisition programs continue. As a result, China may be pitted against a coalition of nations in the region with further escalation possible.

Although we are pleased to see China's economy more closely mirror our own, its economic advancement is closely tied to its military modernization program. Despite the direction the economy takes in the next few years, we can expect China's military to continue to modernize. It is unlikely, given China's growth in the last decade, that the economy will falter much. Adjustments may be made for inflation and incentives may be instituted to encourage privatization of some of the state owned enterprises. Deng's successor, too, may make some changes. But, now that the Chinese have tasted capitalism and have been introduced to modern weaponry, they will surely find it difficult to regress. It is very unlikely that economic growth will stop or worse yet, revert to completely Marxist principles. In an ideal world, China's economic and military progress are admirable. However, as one author noted, China has never handled transitions well and we should not expect them to accept these changes well either.

ENDNOTES

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